

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
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9	Chm/NIC				
10	GC				
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13	D/Pers				
14	D/OLL				
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18	C/IPD/OIS				
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SUSPENSE _____
Date

Remarks For direct response, please and note requested by COB, today.

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Executive Secretary

31 Dec 86
Date



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United States Department of State

Washington, D.C. 20520

Executive Registry

84- 10408/1

December 27, 1984

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Interagency Group No. 39

TO:	OVP	- Mr. Donald P. Gregg
	NSC	- Mr. Robert Kimmitt
	Agriculture	- Mr. Raymond Lett
	AID	- Mr. Malcolm Butler
	CIA	- [REDACTED]
	Defense	- COL R. J. Affourtit
	EXMIM Bank	- Mr. William H. Draper, III
	JCS	- LTC Thomas O'Connell
	OMB	- Mr. Alton Keel
	Treasury	- Mr. Christopher Hicks

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SUBJECT: Philippine IG - Revised Draft of the Elements of Consensus.

Attached is a revised draft of the "Elements of Consensus" emerging from the Philippine NSSD. Bearing in mind that the purpose of this exercise is to set policy lines rather than to make budgetary commitments, the revised draft seeks to take into account the problems voiced at the December 27 meeting by OMB, Treasury and Agriculture. You are requested to phone your agency's concurrence/comments on the revised draft of the Secretariat staff (Hank Hendrickson or Sheila Lopez - 632-5804) by COB December 31, 1984.

Charles Hill
Executive Secretary

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DECL: OADR

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NSSD: Elements of Consensus

US goal is to preserve the stability of a key ally through realization of the following objectives:

- revitalization of democratic institutions;
- exposing the economy--in particular the agricultural sector--to the interplay of free market forces;
- restoring professional, apolitical leadership to the Philippine military to permit it to deal effectively with the growing communist insurgency.

In moving toward this goal, we will be supporting an internal agenda established by reformist elements within the Philippine political process.

Bases-related assistance, while not explicitly conditioned upon reform, should be managed in a manner that is consistent with our policy objectives. The military component (MAP grants and FMS credits) should concentrate on practical programs such as logistics, maintenance, training, equipment for mobility and communications, and civic action.

Economic assistance beyond the bases-related package, including support for international financial institution loans, will be explicitly conditioned upon:

- US assessment of implementation and compliance with the IMF program; and
- a comprehensive program of structural economic reform, promoted and monitored by active bilateral and

multilateral policy dialogue.

The largest amount of external financial assistance is provided by the IBRD and the ADB. Therefore, agreement on the policy agenda and close coordination with those institutions is a precondition for a successful policy dialogue with the Philippine government. The objective is to ensure that specific policy targets are being adhered to prior to approval of new loans or disbursement against existing loans.

Assuming effective performance, non-bases-related bilateral measures will include:

- DA at \$35-40 million annually;
- every effort, contingent upon available resources, to implement a new PL 480 Title I/III program of at least \$50 million per year in FYs 85 and 86
- increased ESF;
- review of the scheduled phase-out of PL 480 Title II;
- reduced sugar duty on a MFN basis.

All proposals for new assistance will include benchmarks and discreet but plain deadlines. Non-performance will trigger reconsideration of non-bases-related assistance.

Political objectives will be pursued through active public and private diplomacy, including Presidential letters and visits by administration officials, as needed. In order to ensure that the US is reaching the new generation of future leaders, we will increase existing exchange programs.

We should offer for FY 86 an enhanced security assistance program of \$195 million, with \$100 million in military aid including the maximum possible MAP component and ESF maintained at \$95 million, contingent upon available resources. The prospect of enhanced assistance will be used with the Philippine leadership to promote reform. If the necessary reforms are not forthcoming we will fall back to the levels and mix of security assistance called for the by the bases-related "best efforts" commitment.

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With clear evidence that the GOP is committed to implementing a broad front of political and economic reforms, including compliance with the IMF program, we would seek to move quickly on significantly enhanced bilateral and multilateral economic assistance. Based on currently anticipated requirements, and contingent upon available resources, recent bilateral donor support levels averaging \$450 million per year might be increased by three-quarters with the total US portion in the \$300-350 million range. We would also support properly conditioned GOP requests for additional World Bank and ADB loans which are consistent with their lending policies and practices and resource availabilities. Based on donor estimates of needs, such lending might rise from present levels of about \$650 million per year to about \$1 billion. Assistance would be tranching and linked to performance on the needed political and economic reforms.

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